Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

House Bill 4458 (Substitute H-2 as reported without amendment)
Sponsor: Representative Sal Rocca
House Committee: Regulatory Reform
Senate Committee: Economic Development, Small Business and Regulatory Reform

CONTENT

The bill would amend the Michigan Liquor Control Code to allow specially designated distributors (SDDs) to sell alcoholic liquor at a price equal to or greater than the minimum retail selling price fixed by the Liquor Control Commission, and specify that liquor could not be sold at less than the minimum retail selling price. Currently, liquor sold by SDDs must be sold at a price fixed by the Commission. (An SDD is a person licensed by the Commission to sell packaged liquor for off-premises consumption.)

The bill would define "retail selling price" as the price the Commission pays for spirits plus the gross profit established in the Code. (The Code allows the Commission to establish a gross profit of from 51% to 65% added to the price it pays for spirits. The Commission currently maintains a 65% gross profit.) This definition also would apply to sections of the Code providing for specific taxes, which are percentages of the retail selling price.

The bill would define "minimum retail selling price" as the retail selling price plus the specific taxes imposed on liquor in the Code.

MCL 436.1229 Legislative Analyst: George Towne

FISCAL IMPACT

The bill would have a fiscal impact on State revenue, depending upon how price variations would affect the amount of liquor purchased. If consumption remained the same, and were completely unresponsive to any price increase that would occur under the bill, the bill could generate additional sales tax revenue. However, if consumption declined in response to the price increases, either through the purchase of less expensive liquor or due to reduced consumption of liquor, revenue to the School Aid Fund and the General Fund would be adjusted accordingly.

For example, inclusive of the Liquor Control Commission's 65% markup, $794.2 million of liquor is expected to be sold in Michigan during FY 2004-05. If the bill resulted in an average increase in liquor prices of 10%, using a common assumed measure of price responsiveness, sales would decline by 5%. Net sales would be higher, at $829.9 million. However, the distribution of revenue would be changed.

Retailers receive revenue through a set percentage of the price set by the Commission, referred to as the discount. The discount comprises 17% of the price set by the Commission, not the retail price. In this example, if sales declined 5%, the discount would decline approximately $6.8 million. The amount of the markup received by the State would similarly decline by $8.9 million.

Liquor taxes and the sales tax are levied on the retail price of the liquor. Because the retail price would be higher under the bill, revenue under these taxes would increase. In this example, sales tax revenue would rise by approximately $2.1 million, and would be split among the General Fund, the School Aid Fund, and revenue sharing. In the example, liquor tax revenue would decrease by $5.5 million, and the decrease would be distributed across the General Fund, the School Aid Fund, the Convention Facilities Fund, and the Liquor Purchasing Revolving Fund.

The net effect of all of these changes, is summarized in the following table.

Distribution of Revenue Effects of a 10% Liquor Price Increase Net Effect of Changes, with State Impact By Fund (dollars in millions)	
Fund	**Fiscal Impact**
General Fund	-$10.4
School Aid Fund	$0.0
Conv. Facilities Fund	-$1.6
Liquor Purch. Revolving Fund	$0.7
Revenue Sharing	$0.5
Liquor Retailers	$33.0

To the extent that prices would increase by more or less than the amount assumed in the example, the actual impact of the bill would be different. Generally, higher price increases would make the increases in revenue higher and the losses in revenue (to the General Fund) greater. Similarly, smaller price increases would reduce both the losses and gains to each fund or entity receiving liquor revenue.

This analysis is preliminary and will be revised as new information becomes available.

Fiscal Analyst: Jay Wortley
David Zin